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DE-028-65

16 March 1965

MEMORANDUM FOR: Chief, Contracts Division, OSA
Chief, Budget & Finance Branch, OSA

SUBJECT : Contract BT-1943 with ITEK Corporation
Final Settlement

1. Transmitted herewith for final payment are necessary supporting documents evidencing final settlement of Contract BT-1943. This contract was partially terminated in October 1963 for the convenience of the Government as directed by DNRO with concurrence by Headquarters. All messages concerning the termination were previously forwarded to Headquarters. Copies of these messages are contained in the contract jacket for this contract.

25X1A 2. On 12 January 1965 the Contracting Officer with Messrs.
25X1A [redacted] (Headquarters Audit Representatives)
25X1A negotiated with [redacted], the ITEK Representative, and arrived
at final costs and fee for Contract BT-1943. Contract IK-4666 was
settled at the same time. Contract BT-1943 was settled for

3. FINAL SETTLEMENT AGREEMENT. Final settlement of Contract BT-1943 is contained in Amendment No. 5. Since this was a CPIF contract the fixed fee was necessarily increased as final costs were negotiated downward.

25X1A 4. GOVERNMENT OWNED PROPERTY. All Government owned property
25X1A has been disposed of in the best interests of the Government.
[redacted] (CWO-USAF) the Headquarters Property Representative
from [redacted], handled all of the property matters arising under
this contract. He was the Property Representative during the
progress of the contract and he also guided the Contractor and the
Contracting Officer in the final disposition of Government property.
A complete IBM Property Listing of the residual inventory is contained
25X1A in the property jacket of this contract. A copy of the IBM List is
also in the custody of [redacted]. Copies of [redacted] memos of 22 May,
3 April and 7 February 1964 are attached. These memos indicate that
Government property under this contract was disposed of in the best
25X1A interest of the Government. The original copy of each of these memos
is contained in the property jacket of Contract BT-1943. Residual
inventory is stored at [redacted]

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5. In addition to the foregoing the following additional documents are transmitted herewith:

- a. Auditor's memorandum of 5 February 1965 covering final settlement.
- b. Contractor's Release
- c. Contractor's Final Invoice for costs and fee
- d. Contractor's Final Report on Patents
- e. Contractor's accounting for this contract including overhead and G&A adjustment.
- f. Contractor's Accumulative Claim and Reconciliation
- g. Statement of Government Technical Representative

6. Attention of Finance Branch is invited to the fact that the final negotiated CPIF price is less than the amount claimed in Contractor's Accumulative Claim and Reconciliation. This is due to the fact that the Government Representatives negotiated the final claim downward. The Contractor's final release and final invoice are in agreement with the Government Audit Report and with the final settlement agreement signed by both parties.



Contracting Officer

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DE-030-65

16 March 1965

MEMORANDUM FOR THE RECORD

SUBJECT: Negotiations leading to settlement of Contracts
BT-1943 and IK-4666 with ITEK Corporation

1. The undersigned Contracting Officer met with [] Agency Assigned Auditor at ITEK, and [] Head of the Audit Group for OSA, to consider proposals made by the ITEK Corporation for settlement of the two contracts which had been terminated in October 1963. At that time Contract IK-4666 was terminated in its entirety and BT-1943 was partially terminated. All work was finally completed in March of 1964.

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2. The Contractor submitted a paper on 15 July 1964 setting forth its detailed proposal for determination of per cent of completion and derivation of incentive fee for both contracts. The technical aspects of the proposal relating to the per cent of completion were reviewed by [] who found the completion percentage stated by the Contractor to be a reasonable representation of the facts existing on the date of termination. Audits were conducted (See Attachment) on the Contractor's records by [] at Boston, and in the case of the Vidya subcontract, audit was performed by [] in Palo Alto. Both auditors took certain exceptions. Government owned property was handled during the course of the work by [] (CWO-USAF) the Agency Property Representative from []. Mr. [] also took part in termination meetings at ITEK involving disposition of all residual inventory. [] has provided statements for the record indicating that all Government owned property has been disposed of in the best interests of the Government.

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3. [] basic exception concerned the application by ITEK of full burden to termination expense. [] relying upon an opinion developed in another case by the Boston Air Procurement District Auditor, felt that upon termination, the nature of the work to be completed in termination proceedings was much different than that occurring during the performance of the contract. As a result of this opinion [] felt that termination expenses should bear overhead rates of approximately [] which would cover essential fringe benefits. The Contracting Officer and Mr. [] supported this view. Basically this viewpoint proceeds on the fact that during the course of the work the Contractor may be

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called upon to utilize his entire facility. For example, he employs his machine shop, tool room, receiving and inspection and numerous other elements of his organization. Upon termination of the contract the Contractor is then obligated to stop all work and proceed toward disposition of inventory, etc. This is primarily a question of checking residual property, preparing IBM Lists, etc. and involves a very limited effort on the part of the Contractor. It is for this reason that the opinion is held that the Contractor is not entitled to full burden on termination expenses.

4. The Contractor's final claim for Contract BT-1943 was as follows:

Contract No. BT-1943

	<u>Costs</u>	<u>Fee</u>	<u>Total</u>	
Contractor's submission				25X1A

The amount finally negotiated for Contract BT-1943 was as follows:

Amount Negotiated		25X1A
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5. The Contractor's final claim for Contract IK-4666 was as follows:

Contract No. IK-4666

	<u>Costs</u>	<u>Fee</u>	<u>Total</u>	
Contractor's submission				25X1A

The amount finally negotiated for Contract IK-4666 was as follows:

Amount Negotiated		25X1A
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6. It should be recognized that under a CPIF type contract the Contractor's fee is increased by 20¢ for each dollar by which the final allowable costs underrun the target cost.

7. The Contractor has accepted the offer of the Government as indicated in the negotiated figures in the preceding paragraph. All necessary documents in support of final settlement for Contracts BT-1943 and IK-4666 with ITEK Corporation have been accumulated in a termination package which is being transmitted to Headquarters for final payment.

Contracting Officer

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